

Summary:

Missouri Board of Public Buildings Missouri; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

Finances

Related Criteria And Research

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Credit Profile

US\$140.32 mil spl oblig rfdg bnds (Missouri) ser A 2011 due: 10/01/2028

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to the Missouri Board of Public Buildings 2011A special obligation bonds, reflecting the appropriation pledge of the state of Missouri. At the same time, we affirmed the 'AAA' rating on the state's general obligation (GO) bonds outstanding and 'AA+' rating on the state's appropriation debt outstanding. The ratings reflect Standard & Poor's assessment of the state's:

- Strong and diverse economic base;
- Good financial management;
- Strong reserves in the form of a budget reserve fund that can only be accessed under certain circumstances; and
- Moderate debt burden.

The certificates of participation and leasehold revenue bonds are subject to annual appropriation and the GO bonds are secured by the state's full faith and credit pledge. This issue will be used to refund appropriation debt outstanding. The refunding savings will be taken in fiscal 2012 and 2013, with some principal restructured to fiscals 2027 through 2029 and budgetary losses after fiscal 2013. However, the refunding results in both budgetary savings and net present value savings of about 14% of principal.

Under our state criteria methodology published Jan. 3, 2011, the state's overall score was '1.6', which, based on our criteria, is associated with a 'AA+' indicative credit level. As our criteria indicate, the final state rating can be within one notch of the indicative credit level. In our view, the 'AAA' GO rating on Missouri is warranted given the state's very strong budget management framework, including substantial statutory budget flexibility to maintain strong reserves and structural budget balance. Historically, the state has sustained its strong reserves, highlighted by its maintenance of its budget reserve fund balance at its constitutionally mandated level. Per the state's constitution, any occurrence of budgetary imbalances during the fiscal year must be cured by the governor's rescission authority. We believe that the strength of the budget management and government framework has allowed the state to maintain reserve and liquidity levels that are consistent with a 'AAA' rating.

The Missouri economy's greatest strength is its diversity, in our view, due in part to the state's location at the geographic center of the nation, which gives it an economic advantage in trade and manufacturing. The two major metropolitan areas -- St. Louis and Kansas City, where 55% of the state's population resides -- offer a wide variety of employment opportunities across all income levels and provide the lion's share of the state's income.

Missouri's population grew 7% from 2000 to 2010, to 5.98 million, making the state the 18th-most populous in the U.S. and the fifth-most populous west of the Mississippi River. The state's income levels are just below the national

average, with 2010 median household and per capita effective buying income at 91% and 92%, respectively, of the national level. The unemployment rate averaged 9.6% in 2010, which was on par with the national average. According to the U.S. Bureau of Labor Statistics, the state's unemployment rate for May 2011 was 8.8%, slightly better than the national rate of 9.1%.

State officials indicate that general revenues increased in fiscal 2011. They were about 6% higher than fiscal 2010 actuals and 2% above the 2011 revised consensus forecast. The largest component of the surplus was a decline in personal income refunds. General revenue expenditures were about \$400 million below the appropriations budget primarily due to \$275 million of expenditure restrictions that were implemented midyear. Officials estimate that fiscal 2011 ended with a fully funded budget reserve balance of approximately \$507 million.

The enacted fiscal 2012 budget includes \$7.90 billion in general revenue appropriation and \$23.23 billion in total appropriations. The general revenue appropriations are 0.5% lower than the fiscal 2011 budget and the total appropriations are 1.9% lower. The major components of general revenue are: individual income taxes (66%); sales and use taxes (25%); and corporate income and franchise taxes (4.5%). The budget closed a preliminary budget gap that officials estimated at \$700 million, primarily due to the net loss of about \$650 million of American Recovery and Reinvestment Act general stimulus funding. The gap was closed primarily by continuing midyear expenditure cuts enacted in fiscal 2011 and through some additional Medicaid expenditure cuts. The state made some pension changes for new employees that took effect Jan. 1, 2011—including increasing the employee contribution rate to 4% from 0% and the retirement age to 65 from 62—which are projected to save \$13 million in fiscal 2012 and \$400 million over 10 years. The budget projects that the state will maintain its constitutionally mandated budget reserve fund. The chair of the state's House budget committee has proposed using some of the reserve fund for storm disaster expenses, which would need the approval of the Governor and a super-majority of the legislature. The governor currently has proposed reducing state expenditures by \$150 million and not using reserves. If reserves were used, they would have to be replenished over a three-year period.

Missouri is constitutionally prohibited from issuing GO bonds without voter approval, except for refunding bonds and emergency issues up to \$1 million. Consequently, revenue bonds and annual appropriation bonds are important components of capital financing strategy. Debt payments are a first-priority budget item in terms of state budgeting. Missouri had about \$827 million in lease purchase bonds and certificates of participation as of June 30, 2010, including \$592 million issued by the Board of Public Buildings. In addition, at fiscal year-end 2010, the state had \$529 million of GO debt and more than \$3.3 billion of gas tax and motor vehicle registration fee-backed bonds issued by the Missouri Highways and Transportation Commission. Including GO, lease-backed, and gas tax highway bonds, Missouri's debt burden is, in our view, low at about \$950 per capita. Existing voter authorizations allow the state to issue an additional \$285.5 million in GO bonds for water pollution and stormwater control. At this time, it is our understanding that the state does not have any variable-rate debt or near-term debt plans.

(For additional information on the rating, please see the full analysis published April 8, 2011, on RatingsDirect on the Global Credit Portal.)

Outlook

The stable outlook reflects our expectation that Missouri will continue to maintain strong reserves and that its financial management will remain good, as evidenced by the recent early and decisive budgetary cuts made to offset a sluggish economic recovery. The outlook also reflects the state's diverse economy, anchored by the St. Louis and

Kansas City metropolitan areas. Downside risk for the rating includes our view of the potential for significant reductions in federal funding that currently flows to the state. Standard & Poor's will continue to monitor the federal consolidation efforts stemming from the Budget Control Act and, once these are identified, will evaluate their effect on the state's finances and officials' response to these revenue reductions.

Finances

In fiscal 2010, the state made approximately \$900 million in budget reductions to offset the decline in revenues. At fiscal year-end 2010, the budget reserve fund was fully funded, as required by the Missouri Constitution, at \$527.6 million. For fiscal 2010, the most recent audited year, the state reported a \$102 million operating drawdown, which lowered the general fund balance to \$1.2 billion (6.5% of expenditures). Missouri updates its forecast in December, and members of the consensus revenue estimate team review the forecasts monthly. State law requires that the budget be balanced. As a result, officials are required to make midyear budget cuts to preserve a balanced budget.

The state's financial management practices and policies are considered to be "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA score of "good" indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Missouri performs detailed research for revenue and expenditure growth trends for the current-year budget and conducts a forecast for two additional years. It performs current-year budget reconciliations monthly and reports them to the legislature. The state passes supplemental budgets annually to cover appropriation shortfalls. In addition, the governor is required by the state constitution to withhold and rescind spending to maintain expenditures within actual revenues and maintain the budget reserve fund at 7.5% of the prior year's general revenue collections. The state has a six-year capital plan, which is updated biennially. Investment policies are comprehensive and are reviewed monthly by the state treasurer; holdings are updated monthly and made available to the public. Missouri does not have formal, written guidelines for debt management at this time.

State officials estimate Missouri's total unfunded other post employment benefits unfunded liability to be \$2.5 billion and will establish a trust fund to pay the expected obligation. The plan is a defined benefit plan for various state employee groups. On a per capita basis, the liability translates to a low \$414 and was at 1.1% of personal income. Missouri has two major pension retirement systems, which substantially cover all state employees. The larger plan, the Missouri State Employees Plan, was funded (accrued assets/accrued liabilities) at 80% at fiscal year-end 2010. The unfunded actuarial liabilities are amortized over 30 years. The second, but smaller, plan for the Missouri Patrol Employees Retirement System was funded at 42% at fiscal year-end 2010. Total unfunded actuarial accrued liability totaled \$4.1 billion, translating to an above-average \$687 per capita but strong, in our view, 1.9% of personal income. Overall pension levels are typically funded around 75%. The state has made its full pension annual required contributions for at least the last decade.

Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of August 23, 2011)

Ratings Detail (As Of August 23, 2011) (cont.)		
Missouri GO		
Long Term Rating	AAA/Stable	Affirmed
Missouri rfdg cert of part ser 2011A due 10/01/2018		
Long Term Rating	AA+/Stable	Affirmed
Missouri Brd of Pub Bldg, Missouri		
Missouri		
Missouri Brd of Pub Bldg (Missouri) spl oblig		
Long Term Rating	AA+/Stable	Affirmed
Missouri Brd of Pub Bldg (Missouri) GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Missouri Dev Fin Brd, Missouri		
Missouri		
Missouri Dev Fin Brd (Missouri) lsehold		
Long Term Rating	AA+/Stable	Affirmed
Missouri Dev Fin Brd (State of Missouri Office Bldg Projs) lse ser 2005		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Missouri Hlth & Educl Facs Auth, Missouri		
Missouri		
Missouri Hlth & Educl Facs Auth (Missouri) educl facs		
Long Term Rating	AA+/Stable	Affirmed
St. Louis Regl Conv & Sports Complex Auth, Missouri		
Missouri		
St. Louis Regl Conv & Sports Complex Auth (Missouri) tax-exempt conv & sports fac proj & rfdg bnds ser A-1 2003 dtd 08/01/2003 due 08/15/2007-2021		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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